Central Fleet Division
Annual Physical Inventory
For the Year Ended June 30, 2003

According to Central Fleet Policies and Procedures Manual, Sections 12.2.5 and 12.2.6, each shop in the Central Fleet Division is responsible for performing regular physical inventory counts and data entry at the end of June. Physical inventory counts were taken and verified by the stores employees for the fiscal year ending June 30, 2003. We have listed the valuation of parts on various count dates during the month of June for the current and previous year for comparison.

Shop	FY 2003	FY 2002	Change Amount	Percent %
Alpha Ridge.....	$ 13,162	$ 11,313	$ 1,849	16.34
Cooksville.....	$ 98,481	$ 111,405	$ (12,924)	(11.60)
Dayton.....	$ 273,619	$ 249,710	$ 23,909	9.57
Guilford.....	$ 106,225	$ 99,803	$ 6,422	6.43
Mayfield.....	$ 182,704	$ 159,089	$ 23,616	14.84
Utilities.....	$ 16,912	$ 19,903	$ (2,990)	(15.02)
Total.....	$ 691,103	$ 651,223	$ 39,882	6.12%

After taking the count at each shop, the counts were entered in the computer to determine the year end values. A summary report was compiled by the Office of Central Services on July 17, 2003 based on the above valuation reports and the physical inventory dollar value is submitted to the Department of Finance for the year ended June 30, 2003, entry.

The supervisor at each shop reviewed the variances between the perpetual inventory and the physical inventory counts taken on the inventory count sheets. The counts were compared with the units on hand shown in the perpetual records. The variances were reviewed, recounted, investigated and resolved by the supervisor. After each supervisor was satisfied with their investigation of the accuracy of the parts counted and the recorded units on the perpetual records, the stores technician listed these variances on an annual inventory adjustment form which is used to document an

explanation for the difference.

We have summarized below the number of variances found in the records from each shop at the time of the parts counting process. The shop supervisors investigated the variances and found that most of them were data entry related. They prepared adjustment forms that corrected the perpetual inventory data in the FleetMaint computer program.

Shop	Number of Parts		Number of Variances		% of Variances	
	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003
Alpha Ridge.....	179	192	5	6	2.79	3.13
Cooksville.....	1,607	1,383	7	8	.44	.57
Dayton.....	2,435	2,485	245	371	10.05	14.93
Guilford.....	2,852	2,926	125	144	4.38	4.92
Mayfield.....	1,394	1,540	98	17	7.03	1.10
Utilities.....	192	204	4	5	2.08	2.45
Total	8,659	8,730	484	551	5.59	6.31%

After the investigations and adjustments were completed, the inventory valuation reports were run based on the counted units. The variances were set to zero and the inventory dollar value records were produced as of the date of the count. We were informed that no adjustments were necessary at the shops from the date of the count to the end of the fiscal year to value the inventory as of June 30.

We reviewed the recorded changes on the adjustment forms and found that the forms were prepared after the 2 counts were taken by the stores technician and the variances were investigated and approved by the shop supervisor. We have provided a detailed analysis on each shop in the attached pages.

To calculate and determine the total inventory value amount before and after the counts were taken at each shop, the shop inventory valuation reports were added so that we could compare the two reports and determine the size of the dollar difference. We found that the two valuation reports were run for each shop and noted various recording discrepancies at Dayton Shop.

We have listed below the valuation amounts and reporting separately on each shop.

Shop	Value Before Count Date	Value on Count Date	Difference Amount	Percent %
Alpha Ridge	$ 13,304	$ 13,162	$ (142)	(1.06%)
Cooksville	$ 98,480	$ 98,481	$ 1	-0-
Dayton	$ 318,054	$ 273,619	$ (44,435)	(13.97%)
Guilford	$ 105,692	$ 106,225	$ 533	.50%
Mayfield	$ 183,218	$ 182,705	$ (487)	(.26%)
Utilities	$ 17,152	$ 16,913	$ (239)	(1.39%)
Total	$ 734,900	$ 691,105	$ (44,769)	(6.09%)

Alpha Ridge Shop:

We visited the shop on June 27, 2003. The counts were being taken by the staff members. The inventory value of the auto parts counted amounted to $13,162 on the date of the count. The recorded value prior to the count amounted to $13,304. We took a random sample of 40 items out of 192 parts (20.83%) and did not find any discrepancy in their counts.

The perpetual inventory records were reconciled with the end of the year physical inventory counts and an adjustment form was prepared. There were six items listed consisting of oil, fluid and oil filter etc. on this form. We reviewed the errors and found that they were insignificant for a total dollar value of $142, therefore, we did not take any action at this time.

Cooksville:

We visited the shop on June 26, 2003. The counts were being taken by the staff members. The total dollar value of the inventory value amounted to $98,481 on the date of the count. The inventory records amounted to $98,480 prior to the physical count. The adjustments were made in the recorded data to reconcile a small difference between the recorded and the counted values as of June 26, 2003.

The shop listed 1,383 auto parts on the inventory count sheets on June 26, 2003. We noticed that out of 1,383 parts counted, the counts for 8 parts did not agree. We selected 51 items out of the total 1,383 parts (3.69%) at random for our sample size. We compared our sample counts with their counts and did not find any discrepancies.

We reviewed the perpetual inventory records that were reconciled as of the date of the count. The annual adjustment forms were prepared to correct the perpetual inventory records by the stores technician.

Dayton:

We visited the Dayton shop on June 20, 2003. The counting process was ongoing during our visit. The inventory value amounted to $273,619 as of the date of the count. The inventory valuation per the records prior to the date of the count amounted to $318,054. An adjustment in the amount of $44,435 was made. This difference of 14% is material. The inventory value reported to the Department of Finance as of June 30, 2002 was $273,619.

On June 20, 2003, 2,485 auto parts were listed on the inventory count sheets at different locations of the shop. We noted that the counts of 371 parts did not agree. This is an increase of 126 variances from the previous year. We selected 38 parts out of 2,485 parts at random for our sample size. We reviewed and compared our counts with the counts taken by them and found that they agreed, except for two items for part #51623 and #33217 (Oil Filters).

We reviewed the perpetual inventory records that were reconciled with the physical counts. The adjustments for 371 items were prepared by the stores technician to account and explain the differences. The explanations were incomplete and insufficient. One of the parts "Rear Brake Rotor (number 3218K167)" was adjusted due to the incorrect number of units being entered at the time of receipt. The actual receipt should have been recorded as one unit. Instead it was recorded as 191.75 at $187.53 per unit. This error caused the total inventory to be overstated by $35,958. The other adjustment was for tire (#255/70R22.5G124). It was made because the count was for 8 tires while the records stated that 15 tires were on the inventory sheet. This caused the total inventory amount to be overstated by $1,227 (7 tires x $175.28 per tires = $1,226.96). There were other adjustments for which no complete or sufficient explanations were provided. The stores technician responsible appeared to be very poor in keeping records.

The record keeping and inventory management problem has been ongoing for several years producing an unacceptable and material error rate. We therefore recommend that:

1. ***The Central Fleet Administrative Office re-assign the stores keeping duties to a different employee to help reduce the perpetual error rate in their stores inventory data management***.

2. ***The software should have input edit checks for quantity and unit price to avoid significant dollar errors.***

Guilford Shop:

We visited the shop on June 30, 2003 to observe the inventory counting process. The total value of the count amounted to $106,225. The inventory valuation before the count was reported in the amount of $ 105,692. We took a random sample of 44 parts (1.5%) out of 2,926 items listed. Based on that sample, we did not find any discrepancy in their counts. We reviewed the perpetual inventory records that were reconciled as of the date of the count.

An adjustment in the amount of $533 was made to reconcile the difference between the recorded and the counted inventory valuation amounts. The total number of 142 parts consisting of various items were noted on these adjustment forms as of the date of the count. The adjustment forms were prepared to correct, report and explain the perpetual inventory differences found while the counts were taken. We reviewed some of the variances listed on the adjustment forms and did not find any part with significant dollar discrepancies.

Mayfield Shop:

We visited the shop on June 30, 2003 and noted that some of the counts were completed prior to our visit. The total dollar value of the inventory of the parts counted on June 30, 2003 amounted to $182,705. We took a random sample of 35 parts (2.3%) out of 1,540 items listed. We noted three (3) discrepancies in their counts. The perpetual inventory records were reconciled with the end of the physical inventory counting process by preparing the annual adjustment form.

We reviewed the variances listed on the adjustment form and did not find any part count with a significant dollar discrepancy. We noted that three variances were missed and not reported on the adjustment form.

We were informed that they also discovered an error in the unit cost of a particular item. Previously stated recommendation No.2 under The Dayton shop should avoid this type of inputting error.

Utilities Shop:

We visited the shop on June 27, 2003 to observe the inventory counting process. The recorded value prior to the count was $17,152 and after the count amounted to $16,912. We took a random sample of 44 out of 204 parts listed and did find four discrepancies in the counts. The perpetual inventory records were reconciled with the end of the year physical inventory counts and an adjustment form was completed. There were only four items consisting of oil, fluid and tires on this form. We reviewed the errors and found that they totaled $239, which was insignificant, and therefore, we did not take any action at this time. The total inventory value for the count per the final valuation report dated June 30 amounted to $16,912.

Fuel Inventory:

We met with the Central Fleet administration staff to schedule our fuel inventory (unleaded gasoline and diesel) measurement observation visits. The administration office technician manually measures fuel stored in the tanks monthly, on a fixed schedule. The perpetual inventory record is kept on the computerized Veeder Root machine. The amount of fuel in the tanks is measured by this device and printed on the tape. There are no Veeder Root devices at Dorsey Building, the Waste Water Plant, the Banneker Fire Station No.7 and the Howard Building sites.

We visited fifteen (15) sites on June 30, 2003 to observe the fuel inventory process. The fuel measurements were taken by a technician of the Central Fleet by a measurement stick. At the sites, he also provided a Veeder Root tape of the fuel reading except at the Dorsey Building, the Waste Water plant, the Banneker Fire Station No.7 and the Howard Building. We did not observe any significant discrepancies.

The Office of the Central Services prepared a memorandum report for the fuel inventory dated July 17, 2003 for the Department of Finance (Financial Management Division) for the fiscal year 2003. As per the memo gasoline inventory value was $80,854 and the diesel inventory value was $74,723, resulting in a total fuel value of $155,577.